

Message Text

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AMEMBASSY STOCKHOLM

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C O N F I D E N T I A L EC BRUSSELS 05191

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TAGS: EFIN, EEC

SUBJECT: FRENCH RE-ENTRY INTO THE "MINI SNAKE" -- EC CENTRAL
BANK GOVERNORS AND MONETARY COMMITTEE TAKE POSITIONS

REF: EC BRUSSELS 4723

1. SUMMARY: THE EC HAS REVIEWED FRANCE'S PROPOSALS TO MODIFY THE SNAKE'S OPERATIONS. THE FINANCE COUNCIL ON JUNE 16 WILL CONSIDER RECOMMENDATIONS TO EXTEND THE VERY SHORT-TERM CREDIT FACILITY AND TO STUDY WAYS OF SHARING INTERVENTION COSTS AND OF ADOPTING A COOPERATIVE APPROACH TOWARD THE DOLLAR EXCHANGE RATE. EVEN THOUGH FRANCE HAS NOT AND MAY NOT OBTAIN SATISFACTION ON SEVERAL OF ITS PROPOSALS, OBSERVERS HERE EXPECT THE GOF TO ANNOUNCE FORMAL ENTRY INTO THE SNAKE, PERHAPS AS EARLY AS JUNE 16. END SUMMARY.

2. THE EC HAS HELD A SERIES OF MEETINGS TO CONSIDER THE FRENCH "SUGGESTIONS" FOR MODIFYING THE OPERATIONS OF THE SNAKE (SEE EC BRUSSELS 4623). MEETING IN FRANKFURT
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ON MAY 26, THE CENTRAL BANK GOVERNORS OF THE "SNAKE"

COUNTRIES REJECTED THE PROPOSAL THAT THE SNAKE ADOPT A TARGET INTERVENTION ZONE AGAINST THE DOLLAR. THE GOVERNORS ALSO HAD RESERVATIONS ABOUT CHANGING THE INTERVENTION RULES SO AS TO SHARE THE COST OF INTERVENTION AMONG ALL THE PARTICIPATING COUNTRIES.

3. THE FULL EC CENTRAL BANK GOVERNORS' COMMITTEE HELD TWO MEETINGS TO DISCUSS THE FRENCH PROPOSALS. THE COMMITTEE HELD A DEPUTIES MEETING ON JUNE 7-8, FOLLOWED BY A MEETING OF THE GOVERNORS ON JUNE 9 IN BASEL. THE FRENCH PUT FORWARD SEVERAL DETAILED PROPOSALS. (COPIES OF THESE PROPOSALS ARE BEING SENT TO INTERESTED WASHINGTON AGENCIES.) THE GOF SUGGESTED THAT PARTICIPANTS SHOULD SHARE COSTS BY INTERVENING IN DOLLARS BEFORE CURRENCIES REACH THE SNAKE'S MARGINS. THESE INTERVENTIONS WOULD BE TRIGGERED WHEN ONE OR MORE CURRENCIES DIVERGE FROM A COMMON DOLLAR REFERENCE RATE AND ALL SNAKE MEMBERS WOULD INTERVENE. THIS SYSTEM WOULD HELP SMOOTH OUT ERRATIC EXCHANGE RATE MOVEMENTS. ONCE A CURRENCY REACHES THE MARGIN, NATIONAL CURRENCIES WOULD BE USED FOR INTERVENTIONS.

4. COMMISSION OFFICIALS REPORT THAT THE CENTRAL BANK GOVERNORS ARE OPEN MINDED TOWARD THIS PROPOSAL. THEY DO NOT WANT TO ADOPT ANY AUTOMATIC INTERVENTION REQUIREMENTS BUT ARE WILLING TO STUDY AN AD HOC SYSTEM OF DOLLAR INTERVENTIONS WITHIN THE MARGINS. THE CENTRAL BANK GOVERNORS HAVE RECOMMENDED TO THE FINANCE COUNCIL FOR ITS MEETING ON JUNE 16 THAT WITHIN SIX MONTHS A FEASIBILITY STUDY SHOULD BE COMPLETED OF THIS PROPOSAL. THE GOVERNORS ALSO AGREED TO INVESTIGATE THE POSSIBILITY OF ADOPTING A COMMON APPROACH TOWARD THIRD COUNTRY EXCHANGE RATES, I.E., SETTING A TARGET RATE FOR THE DOLLAR. SEVERAL GOVERNORS INDICATED, HOWEVER, THAT THEY WOULD NOT AGREE TO ESTABLISHING SPECIFIC INTERVENTION ZONES AGAINST THE DOLLAR.

5. THE CENTRAL BANK GOVERNORS AGREED IN PRINCIPLE TO CONFIDENTIAL

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AN AUTOMATIC THREE-MONTH EXTENSION TO THE SNAKE'S VERY SHORT-TERM CREDIT FACILITY. NO AGREEMENT WAS REACHED, HOWEVER, ON HOW MUCH CREDIT SHOULD BE PROVIDED. THE FRENCH PROPOSED NO LIMITS BUT THE FRG SUGGESTED THAT EACH PARTICIPANT SHOULD HAVE A CEILING CORRESPONDING TO ITS QUOTA UNDER THE EC SHORT-TERM CREDIT FACILITY. THE BELGIANS PUT FORWARD A COMPROMISE WHICH WOULD ALLOW A PARTICIPANT TO BORROW UP TO ITS SHORT-TERM

CREDIT QUOTA EACH MONTH FOR THREE CONSECUTIVE MONTHS. THUS, THE TOTAL CREDIT LIMIT WOULD BE THREE TIMES THE SHORT-TERM QUOTA. THESE THREE PROPOSALS WILL BE SUBMITTED TO THE COUNCIL FOR THE FINANCE MINISTERS TO CONSIDER.

6. THE FRENCH ALSO SUBMITTED SEVERAL PROPOSALS WHICH FINANCE MINISTER FOURCADE HAD NOT SUGGESTED AT THE MAY 20 COUNCIL MEETING. THE GOF PROPOSED THAT THE CURRENT INTERVENTION MARGINS FOR THE "SMOOTHING OUT" OF DAILY EXCHANGE RATE FLUCTUATIONS AGAINST THE DOLLAR BE NARROWED FROM 1 TO 0.5 PERCENT. IT ALSO SUGGESTED IMPROVING CONSULTATION PROCEDURES. SEVERAL CENTRAL BANKS SUPPORTED THIS PROPOSAL BECAUSE THEY BELIEVE THE CURRENT MARGIN IS TOO LARGE. THE CENTRAL BANKERS PLAN TO TAKE UP THIS PROPOSAL SEPARATELY FROM THE FRENCH RE-ENTRY INTO THE SNAKE.

7. THE MONETARY COMMITTEE MET IN PARIS DURING THE EVENING OF JUNE 9 TO REVIEW THE CENTRAL BANK COMMITTEE'S PROPOSALS. THE MEETING ESSENTIALLY PROVIDED THE FINANCE MINISTRIES AN OPPORTUNITY TO COMMENT ON THE CENTRAL BANKERS'S PROPOSALS. THE COMMITTEE REAFFIRMED THESE PROPOSALS AND IS SUBMITTING SIMILAR RECOMMENDATIONS TO THE JUNE 16 COUNCIL MEETING.

8. COMMENT: COMMISSION OFFICIALS SAY IT IS NOT RPT NOT UP TO THE FINANCE COUNCIL TO DECIDE ON FRENCH RE-ENTRY. THE FRENCH CAN DO THIS BY MAKING A UNILATERAL DECLARATION INDICATING FORMAL RE-ENTRY. COMMISSION OFFICIALS EXPECT THAT THIS DECLARATION COULD BE MADE AS EARLY AS THE JUNE 16 MEETING. THE GOF HAS BEEN FLEXIBLE REGARDING THE TERMS OF ITS RE-ENTRY AND IS CONFIDENTIAL

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PREPARED TO FORMALIZE ITS PARTICIPATION, EVEN THOUGH MOST OF ITS "SUGGESTIONS" WERE NOT ACCEPTED. THE FRENCH DE FACTO ARE IN THE SNAKE NOW; FOR EXAMPLE, THEY ARE INTERVENING IN THE MARKET TO STAY WITHIN THE SNAKE'S MARGIN. FORMAL RE-ENTRY WOULD ENABLE FRANCE TO MAKE USE OF THE SNAKE'S CREDIT FACILITIES. END COMMENT. GREENWALD

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